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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, FEBRUARY 5, 2001

APPLICATION OF

KENTUCKY UTILITIES COMPANY

CASE NO. PUE010003

For approval of a functional
separation plan

ORDER PRESCRIBING NOTICE AND INVITING
COMMENTS AND REQUESTS FOR HEARING

Section 56-590 of the Virginia Electric Utility Restructuring Act (the "Act"), Chapter 23 (§ 56-576 et seq.) of Title 56 of the Code of Virginia, requires all incumbent electric utilities to functionally separate their electric generation, retail transmission, and distribution services by January 1, 2002. Section 56-590 of the Act authorized the State Corporation Commission ("Commission") to promulgate rules and regulations to direct the functional separation of electric generation, retail transmission, and distribution services, and to direct certain requirements be contained in incumbent electric utilities functional separation plans.

The Commission adopted, in Case No. PUA000029, Regulations Governing the Functional Separation of Incumbent Electric Utilities Under the Virginia Electric Utility Restructuring Act (the "Functional Separation Rules"), 20 VAC 5-202-10 et seq. The Functional Separation Rules govern the relationships between

affiliated functionally separated entities, the Commission's oversight of such affiliated companies, and the requirements of the functional separation plans submitted by each incumbent electric utility.

On December 29, 2000, Kentucky Utilities Company (the "Company"), filed an application for Commission approval of the Company's plan for functional separation of its generation assets from its retail transmission and distribution assets as required by § 56-590 of the Code and the Functional Separation Rules.

The Company, which conducts business in Virginia under the name Old Dominion Power ("ODP"), states that, with the exception of one 500 KV transmission line, all of ODP's generation and transmission assets are located in Kentucky and are subject to the jurisdiction of the Kentucky Public Service Commission ("Kentucky PSC"). The Company reports that the Commonwealth of Kentucky has no immediate plans to open its retail electric market to competition. Therefore, the Company argues that legally and practically it cannot functionally separate its assets related to its Virginia load, or transfer them to an affiliated entity. ODP suggests in its application, however, that it can achieve the goals and objectives of the Act without functional separation.

First, ODP proposes to operate under the guidelines set forth by the 1999 Kentucky General Assembly in Kentucky House Bill 897 which amended the Kentucky Revised Statutes to impose a code of conduct on the relationship between regulated entities and unregulated affiliates and to establish specific reporting requirements. Among other things, utilities are required to maintain separate corporate entities and keep separate accounts, are prohibited from cross-subsidization, are required to report costs and make allocations pursuant to certain cost allocation methods, and are subjected to certain transaction terms with its affiliates. Second, ODP proposes to file with the Commission the reports it is required to file with the Kentucky PSC. Third, ODP states that it would continue to operate pursuant to the Services Agreement approved by the Commission in Motion of Kentucky Utilities Company, For order regarding allocation factors, Case No. PUA000050. Finally, ODP filed a cost of service study and revised tariff sheets to unbundle retail rates into transmission and distribution components to be available on and after January 1, 2002.

NOW THE COMMISSION, upon consideration of this matter, is of opinion that the Company's application should be docketed, that notice should be given to the public, that interested parties should be given an opportunity to comment or request a hearing on the Company's application, and that Staff should

investigate and analyze the Company's application and present its recommendations to the Commission.

Accordingly, IT IS ORDERED THAT:

(1) This matter is docketed and assigned Case No. PUE010003.

(2) The Company's application may be viewed during regular business hours at the Commission's Document Control Center, Tyler Building, First Floor, 1300 East Main Street, Richmond, Virginia. Interested parties also may obtain copies by making a written request to counsel for the Company, Richard D. Gary, Esquire, Hunton & Williams, Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond, Virginia 23219.

(3) On or before March 2, 2001, the Company shall publish the following notice as display advertising, not classified, once in newspapers of general circulation throughout its service territory:

NOTICE OF THE APPLICATION OF
KENTUCKY UTILITIES COMPANY
FOR APPROVAL OF A
FUNCTIONAL SEPARATION PLAN
CASE NO. PUE010003

On December 29, 2000, Kentucky Utilities Company (the "Company"), filed an application for State Corporation Commission ("Commission") approval of the Company's plan for functional separation of its electric generation, retail transmission, and distribution assets as required by § 56-590 of the Virginia Electric Utility Restructuring Act (the "Act"), Chapter 23 (§ 56-576 et seq.) of Title 56 of the Code of Virginia, and the Commission's

Regulations Governing the Functional Separation of Incumbent Electric Utilities Under the Virginia Electric Utility Restructuring Act (the "Functional Separation Rules"), 20 VAC 5-202-10 et seq., adopted in Case No. PUA000029.

The Company, which conducts business in Virginia under the name Old Dominion Power ("ODP"), states that, with the exception of one 500 KV transmission line, all of ODP's generation and transmission assets are located in Kentucky and are subject to the jurisdiction of the Kentucky Public Service Commission ("Kentucky PSC"). The Company reports that the Commonwealth of Kentucky has no immediate plans to open its retail electric market to competition. Therefore, the Company argues that legally and practically it cannot functionally separate its assets related to its Virginia load, or transfer them to an affiliated entity. ODP suggests in its application, however, that it can achieve the goals and objectives of the Act without functional separation.

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Kentucky Utilities Company, For order regarding allocation factors, Case No. PUA000050. Finally, ODP filed a cost of service study and revised tariff sheets to unbundle retail rates into transmission and distribution components to be available on and after January 1, 2002.

A copy of the above-referenced application is available for inspection during regular business hours at the State Corporation Commission, Document Control Center, First Floor, Tyler Building, 1300 East Main Street, Richmond, Virginia. Interested persons also may obtain a copy of the application by making a written request to counsel for the Company, Richard D. Gary, Esquire, Hunton & Williams, Riverfront Plaza, East Tower, 951 East Byrd Street, Richmond Virginia 23219.

Comments on the application must be submitted in writing to Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218, on or before April 6, 2001, 2001. Requests for hearing also must be submitted in writing to the Clerk on or before April 6, 2001. Requests for a hearing shall state why a hearing is necessary and why such issues cannot be adequately addressed in written comments. All correspondence shall refer to Case No. PUE010003. A copy of any comments or requests for hearing shall also be sent to counsel for the Company, at the address set forth above.

If no sufficient request for hearing is received, a formal hearing with oral testimony may not be held, and the Commission may make its decisions based upon papers filed in this proceeding.

KENTUCKY UTILITIES COMPANY

(4) The Company shall forthwith serve a copy of this Order on the Chairman of the Board of Supervisors of any county, upon the Mayor or Manager of any city or town, and upon any equivalent officials in counties, cities, and towns having alternate forms of government, within the Company's service territories. Service shall be made by first-class mail or delivery to the customary place of business or residence of the person served.

(5) On or before March 30, 2001, the Company shall file with the Clerk of the Commission proof of notice and service as required in Ordering Paragraphs (3) and (4) above.

(6) On or before April 6, 2001, any interested person wishing to comment on the Company's application, or desiring a hearing in this matter, shall file an original and fifteen (15) copies of such written comments and requests for hearing with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218, and shall refer to Case No. PUE010003. A copy of such comments or requests for hearing shall simultaneously be sent to counsel for the Company, at the address set forth above. Any request for hearing shall detail reasons why such issues cannot be adequately addressed in written comments. If no sufficient request for hearing is received, a formal hearing with oral

testimony may not be held, and the Commission may make its decisions based upon papers filed in this proceeding.

(7) On or before June 27, 2001, the Commission Staff shall review the application and shall file a report presenting its findings and recommendations.

(8) The Company shall respond to written interrogatories within seven (7) business days after receipt of same. Except as modified above, discovery shall be in accordance with Part VI of the Commission's Rules of Practice and Procedure.

(9) This matter is continued generally.